

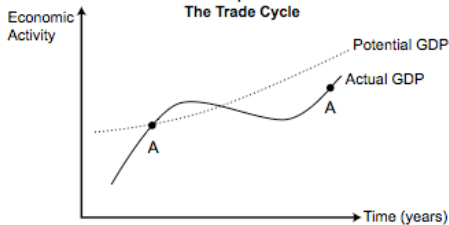
**Assessment Schedule – 2006****Economics: Describe aggregate economic activity (90632)****Evidence Statement**

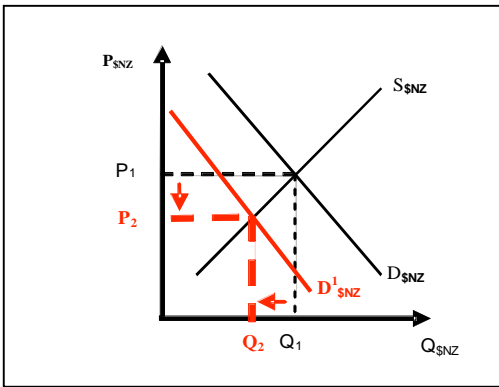
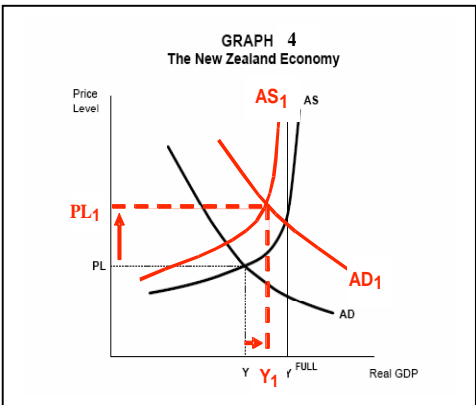
Code	Q	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A1	<b>One</b> (a)	B = Consumption (spending) or C C = Investment or I D = Import <u>payments</u> or M E = Export <u>receipts</u> or X	Any THREE correct		
A1	(b)	148 900	Correct figure		
A2	<b>Two</b> (a)	EITHER <i>Direct tax</i> (eg): <ul style="list-style-type: none"> <li>PAYE – fewer people will be working or will be working less hours.</li> <li>Corporate tax – a downturn will mean smaller profits for companies.</li> </ul> OR <i>Indirect Tax</i> (eg): <ul style="list-style-type: none"> <li>GST – less economic activity will mean lower spending, so less GST will be collected.</li> </ul>	Identifies an affected area and gives ONE correct reason		
A2	(b)	(other) benefits / social welfare/transfers	Correct area		
A2 or M2	(c)	Ideas of: (eg) <ul style="list-style-type: none"> <li>The Public Finance Amendment Act (PFA) requires that: (see list below) eg. government run operating surpluses until Public debt falls to prudent levels.</li> <li>If Working for Families causes government (transfer) spending to increase to a level that makes a surplus unattainable, this may conflict with the PFA.</li> </ul>	Identifies a constraint relevant to WFF	Explains link between WFF and constraint	

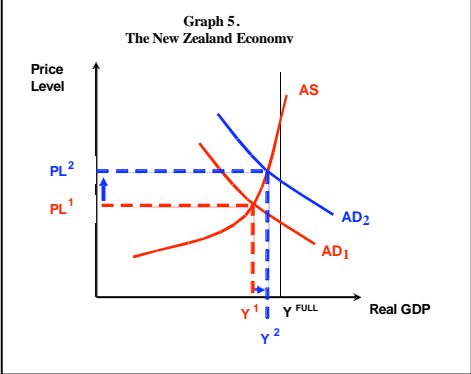
**CONSTRAINTS OF PFA****Prudent Fiscal Management requires:**

- reducing debt to prudent levels
  - this requires running surpluses until debt brought down to prudent levels (Note this means govt cant sell off assets to bring debt down)
  - once debt at prudent levels govt must maintain, on average, an operating balance
- achieving and maintaining levels of net worth that provide a buffer against adverse future events such as economic shocks and demographic changes
- policies that are consistent with a reasonable degree of predictability about the level and stability of future tax rates.
- managing the risks facing the Crown to reduce uncertainty associated with govts future financial performance and position

**Source: A Guide to the Public Finance Act p 31-32.**

Code	Q	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A1	<b>Two</b> (d)	The unemployment rate has <u>fallen</u> : <ul style="list-style-type: none"> <li>from approximately 7.5% in 1999 to 3.5% in 2005</li> </ul> OR <ul style="list-style-type: none"> <li>by 4%</li> </ul>	Correctly identifies trend and interprets figures from graph		
A1	(e)	 <p>(i) <b>A</b> positioned on an upslope of actual GDP Idea of:</p> <p>(ii)</p> <ul style="list-style-type: none"> <li>Unemployment is very low so the economy is near the top of trade cycle</li> </ul>	Correctly positions <b>A</b> and describes location in terms of unemployment /employment		
A2	<b>Three</b> (a)	Terms of trade <u>fell</u> : <ul style="list-style-type: none"> <li>from 1105 in March 2005 to 1062 in December 2005</li> </ul> OR <ul style="list-style-type: none"> <li>by 3.89%/by 43 (index numbers)</li> </ul>	Correctly identifies trend and interprets figures from table		
A2 or M2	(b)	Ideas of: <ul style="list-style-type: none"> <li>A fall in the terms of trade means import prices are rising relative to export prices.</li> <li>So (assuming the same quantity is traded) import payments will rise relative to exports receipts, thereby decreasing the Balance on Goods.</li> </ul> OR If the trend identified in 3(a) has terms of trade rising, follow through this trend to explain why the Balance on Goods falls.	Describes ONE key point	Explanation includes BOTH points	

Code	Q	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A2*	Four (a)		<p>D shifted to left labelled</p> <p>AND effect on P and Q identified with dotted lines and labelled</p>		
A2*	(b) (i)		<p>Shifts AD to right and AS to left AND correctly labels both new curves, and PL1, Y1 identified with dotted lines and labelled</p>		
A2*	(b) (ii)	<p><b>Inflation</b>                      increase</p> <p><b>Economic Growth</b>        increase</p> <p><b>Unemployment</b>           decrease</p>	All THREE correct (based on candidate's diagram)		
A2 or M2*	(b) (iii)	<p><b>Aggregate Supply</b></p> <p>Ideas of:</p> <ul style="list-style-type: none"> <li>Depreciation raises the cost of imported raw materials (as more NZ dollars are now required to buy them)</li> <li>Increased costs decrease profits, so firms plan to produce less thereby shifting AS left.</li> </ul> <p>or to seek higher prices (to maintain profit margins) at the existing output level which shifts AS left</p>	Describes ONE key point	Explanation includes BOTH points	
A2 or M2*	(b) (iii)	<p><b>Aggregate Demand</b></p> <p>Ideas of:</p> <ul style="list-style-type: none"> <li>Depreciation makes NZ exported goods/services more competitive in overseas markets, OR depreciation means exporters swap their foreign earnings for more NZ dollars OR imports less competitive in NZ</li> <li>This increases the value of net export receipts, thereby shifting AD right</li> </ul>	Describes ONE key point	Explanation includes BOTH points	
E2	Four	<p>(a)        A2*</p> <p>(b) (ii)   A2* and (ii) A2*</p> <p>(b) (iii) AS        M2*</p> <p>(b) (iii) AD        M2*</p>			All FIVE * grades

Code	Q	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A1	<b>Five</b> (a)	Ideas of: <ul style="list-style-type: none"> <li>At higher levels of real output, competition for scarce resources bids up their price</li> <li>Near full employment input shortages and production bottlenecks require substantially higher prices to induce firms to produce.</li> </ul>	Identifies ONE point		
A1	(b)	 <p>Graph 5. The New Zealand Economy</p> <p>Price Level</p> <p>PL<sup>2</sup></p> <p>PL<sup>1</sup></p> <p>AS</p> <p>AD<sub>2</sub></p> <p>AD<sub>1</sub></p> <p>Y<sup>1</sup></p> <p>Y<sup>2</sup></p> <p>Y<sub>FULL</sub></p> <p>Real GDP</p>	AS and AD drawn so that equilibrium is near Y <sub>FULL</sub>  All curves and PL1 and Y1 labelled		
A2#	(c) (i)	<p>Could shift AS shifts as well if an explanation for it in cii</p>	AD shifted to right and labelled, PL2 and Y2 labelled		
A2 or M2#	(c) (ii)	Ideas of: <ul style="list-style-type: none"> <li>The <i>Working for Families</i> package will give low- / middle-income earners an increase in disposable income</li> <li>This will increase consumption spending so AD shifts right.</li> </ul>	Describes ONE key point	Explanation includes BOTH points	
A2#	(c) (iii)	<b>Inflation</b> increase <b>Economic Growth</b> increase <b>Unemployment</b> decrease	All THREE correct (based on candidate's diagram)		
A2 or M2#	(c) (iv)	Ideas of: <ul style="list-style-type: none"> <li>The current Policy Targets Agreement requires that inflation be kept between 1–3% on average in medium term.</li> <li>Because the NZ economy is operating near full employment (on the steep part of AS), the <i>Working for Families</i> package (or any increase in AD) will cause mainly inflation, so the RBNZ is <u>likely to</u> increase the OCR.</li> </ul>	Describes ONE key point	Explanation includes BOTH points	
E2	<b>Five</b> (b) A1# (c) (i) A2# (c) (ii) M# (c) (iii) A2# (c) (iv) M#				All FIVE # grades

**Judgement Statement**

<b>Achievement</b>	<b>Achievement with Merit</b>	<b>Achievement with Excellence</b>
$1 \times A1$ $1 \times A2$ 6 other A or M or E  (8/22)	$2 \times M$ $1 \times A1$ $1 \times A2$ 6 other A or M or E  (10/22)	$1 \times E2$ $3 \times M$ $1 \times A1$ $1 \times A2$ 6 other A or M or E  (12/22)
A1 related to the first criterion  A2, M2 and E2 relate to the second criterion		